

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 7911

BILL NUMBER: HB 2022

DATE PREPARED: Feb 12, 2001

BILL AMENDED:

SUBJECT: Inventory Tax Credits.

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FUNDS AFFECTED: X
X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill establishes the Inventory Tax Reduction Fund and provides that the Fund is used to pay an Inventory Tax Credit for Growing Employers (ITCGE) to taxpayers that employ new employees after 2000. It specifies that the amount of the credit is equal to: (1) the percentage of the employer's employees who are new employees; multiplied by (2) the taxpayer's net property tax liability on inventory. The bill provides that if the money in the Inventory Tax Relief Fund is insufficient to pay all of the credits, the amount of each taxpayer's credit is reduced by an equal percentage. It also provides that if there is a balance in the Inventory Tax Reduction Fund after providing the ITCGE credits, the remaining amounts in the Fund shall be used to provide an inventory tax credit to all taxpayers with inventory tax liability.

This bill specifies that a part of income tax collections from an employer that employs new employees or increases the amount of the employers business personal property is dedicated to the Inventory Tax Reduction Fund. It further specifies that 50% of the income tax revenue collected from employees of such an employer is also dedicated to the Fund.

Effective Date: July 1, 2001; January 1, 2002.

Explanation of State Expenditures: This bill creates the Inventory Tax Relief Fund which would be administered by the Treasurer of State. It also requires the State Board of Tax Commissioners to develop forms for reporting tax credits and requires the Department of State Revenue (DOR) to make certain distributions. It is expected that these entities would be able to absorb any costs related to this proposal given their existing budgets and resources.

Explanation of State Revenues: *Dedicated Income Tax Revenue:* Under this provision, some corporate income tax revenue (from both the Gross and Adjusted Gross taxes) will be allocated to the Inventory Tax Relief Fund. Employers affected by this provision would be those who meet either of the following conditions: (1) the number of full-time employees in the past tax year is greater than the number in the year

2000 by at least 5%; or (2) the assessed value (AV) of business personal property for the past tax year is at least 5% higher than in 2000. Corporate income taxes are normally deposited in the General Fund and the Property Tax Relief Fund.

The amount that will be diverted is based on a formula which includes employment levels and the business personal property AV of the taxpayer. Ultimately, the portion of each affected firm's state income tax payments deposited in the Inventory Tax Relief Fund will be equal to the lesser of: (1) the formula result; or (2) 50% of the payments. In addition, 50% of the aggregate amount of individual income taxes paid by the employees of companies meeting the conditions described above will also be allocated to the Inventory Tax Relief Fund. Revenue from the Individual Adjusted Gross Income Tax is deposited in the General Fund.

The extent to which this proposal will reduce corporate and individual income tax collections is not known at this time. The fiscal impact ultimately depends on the number and size of firms that meet the conditions outlined in this bill.

Inventory Tax Credits for Growing Employers: This bill provides credits against a firm's net property tax liability on inventory if the firm hires new employees. The amount of the credit would equal the percentage that the new employees represent of all workers employed during the taxable year multiplied by the company's net liability from property taxation of inventory. The total CY 2002 net property tax on inventory is estimated at \$480 M, however, only a portion would be credited under this bill.

Each year, the DOR would distribute from the Inventory Tax Relief Fund to each county treasurer the total amount of credits allowed for businesses in that county in a manner similar to the distribution of Homestead Credits. If there were an insufficient balance in the Fund, each taxpayer's credit would be reduced by a proportional amount.

Inventory Tax Credits: If there is a balance in the Inventory Tax Relief Fund *after* ITCGE credits are distributed, this credit would then be available to *all* entities paying property taxes on inventory. The credit would be equal to the remaining balance of the Inventory Tax Relief Fund multiplied by the result of the firm's net property tax liability on inventory for the taxable year divided by the total statewide net liability. If there were an insufficient balance in the Fund, each taxpayer's credit would be reduced by a proportional amount.

Explanation of Local Expenditures:

Explanation of Local Revenues: Local revenues would not be affected by this proposal.

State Agencies Affected: State Board of Tax Commissioners, Department of State Revenue, and the Treasurer of State.

Local Agencies Affected: County auditors and county assessors.

Information Sources: